



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

June 30, 2008

To: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

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PROJECTED 2007-08 SAVINGS ASSOCIATED WITH BUDGETED VACANCIES IN THE DEPARTMENT OF HEALTH SERVICES (ITEM NO. 71-A SUPPLEMENTAL AGENDA OF JULY 1, 2008)

Item 71-A of the Supplemental Agenda for your Board's July 1, 2008 meeting includes the Chief Executive Officer's (CEO) report related to budgeted vacant positions within the Department of Health Services (DHS), which was continued from your Board's June 16, 2008 Budget Deliberations meeting. On June 17, 2008, Supervisor Knabe requested a report back on whether the \$34.3 million in projected 2007-08 savings associated with budgeted vacancies in DHS, reflected in the CEO's report, could be used to address DHS' structural deficit. This memorandum responds to that request.

Attachment I provides the surplus salaries associated with the funded vacancies in DHS, as reflected in the CEO's earlier report. As reported at your June 17, 2008 meeting, the projected savings for 2007-08 is \$34.3 million. While these positions are funded and are projected to produce savings by year-end, these savings have already been accounted for within the DHS operating budget, as discussed in more detail below.

Background

Historically, DHS has ended each fiscal year with surplus funds, for various reasons, including higher than budgeted revenues, such as revenues from the 1115 Waiver and other one-time funding amounts from the State and federal governments, as well as savings from budgeted vacant positions and one-time savings in services and supplies and other expenditure categories. These amounts have varied over the years, but generally represented a lower than anticipated need for one-time reserves from the DHS designation included in the Department's operating budget. In some cases, the year-end difference between expenditures and revenues still left a gap that could not be completely covered by the on-going County contribution

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amounts. This gap represented the on-going operating deficit of the Department, which required the use of DHS designation funds. Attachment II shows the expenditures, revenues, County contribution and use of designation funds for the past five years.

Because DHS was showing year-end surpluses each year, it became difficult to present an accurate picture of its on-going structural deficit. Therefore, in 2002-03, the CEO added a revenue category to the DHS budget which represented its "budgeted projected savings" and reflected \$43.4 million of revenue in that category, to account for a portion of the projected year-end surplus. Because the year-end surpluses continued at a larger amount, this amount was increased to \$68.4 million in 2003-04 and increased again to \$100.0 million in 2004-05. Each of these actions reduced the amount of one-time reserves used to balance the DHS operating budgets and, therefore, the resulting year-end surpluses.

When, in 2004-05, the year-end surplus was only \$6.6 million, the \$100.0 million was reduced to \$90.0 million for 2005-06, the level it is at currently.

Deficit Reductions Resulting from Cost Savings Options

The savings from the budgeted vacant items, like that shown for 2007-08 in Attachment I, is one component contributing to the DHS "budgeted projected savings" of \$90.0 million. Consequently, if funding for the budgeted vacant positions is removed from the budget, the amount of the "budgeted projected savings" should also be reduced. Therefore, no net savings would result from these actions.

To this point, the savings amounts from the DHS Financial Stabilization proposals have not resulted in reductions in the amount of "budgeted projected savings," since we continue to expect DHS to realize budgetary savings from areas such as vacant positions. However, as DHS develops more cost savings proposals in order to achieve greater efficiencies, this office will work with DHS to evaluate the need for adjustments to the "budgeted projected savings," to ensure that the operating budgets are appropriately balanced.

If you have any questions or need additional information, please contact me or your staff may contact Mason Matthews at (213) 974-2395.

WTF:SRH:SAS
MLM:MM:yb

Attachments (2)

c: Executive Officer, Board of Supervisors
County Counsel
Auditor-Controller
Interim Director, Department of Health Services

LOS ANGELES COUNTY - DEPARTMENT OF HEALTH SERVICES
NET SALARIES *
BUDGET VS. ACTUALS
FISCAL YEARS 2003-04 THROUGH 2007-08 **
(\$ in Millions)

| DEPARTMENT | FY 2003-04 | | | FY 2004-05 | | | FY 2005-06 | | | FY 2006-07 | | | FY 2007-08 | | |
|-------------------------|--|-----------------------------------|----------------|--|-----------------------------------|----------------|--|-----------------------------------|----------------|--|-----------------------------------|----------------|--|------------------------------------|----------------|
| | Budgeted Net Salaries ⁽¹⁾ | Actual Salaries ⁽²⁾ | Variance | Budgeted Net Salaries ⁽¹⁾ | Actual Salaries ⁽²⁾ | Variance | Budgeted Net Salaries ⁽¹⁾ | Actual Salaries ⁽²⁾ | Variance | Budgeted Net Salaries ⁽¹⁾ | Actual Salaries ⁽²⁾ | Variance | Budgeted Net Salaries ⁽¹⁾ | February F-Y-E ^(1,3) | Variance |
| ENTERPRISE FUNDS | | | | | | | | | | | | | | | |
| LAC+USC | \$ 356.7 | \$ 327.0 | \$ 29.6 | \$ 339.9 | \$ 334.8 | \$ 5.1 | \$ 354.0 | \$ 348.7 | \$ 5.4 | \$ 376.4 | \$ 378.5 | \$ (2.1) | \$ 432.5 | \$ 422.1 | \$ 10.4 |
| LAC+USC HCN CHC/HC'S | 35.2 | 35.8 | (0.6) | 37.2 | 35.0 | 2.2 | 39.6 | 36.4 | 3.2 | 39.9 | 39.9 | (0.1) | 43.3 | 43.1 | 0.2 |
| LAC+USC NETWORK: | \$ 391.9 | \$ 362.9 | \$ 29.0 | \$ 377.1 | \$ 369.8 | \$ 7.3 | \$ 393.7 | \$ 385.1 | \$ 8.6 | \$ 416.3 | \$ 418.5 | \$ (2.2) | \$ 475.8 | \$ 465.2 | \$ 10.6 |
| H/UCLA | \$ 181.4 | \$ 163.6 | \$ 17.9 | \$ 175.1 | \$ 172.8 | \$ 2.3 | \$ 191.6 | \$ 187.6 | \$ 4.0 | \$ 204.9 | \$ 209.8 | \$ (4.9) | \$ 253.7 | \$ 244.7 | \$ 9.0 |
| CS CHC/HC'S | 10.3 | 9.5 | 0.8 | 9.8 | 9.2 | 0.5 | 10.8 | 9.5 | 1.3 | 11.0 | 10.3 | 0.7 | 13.5 | 11.3 | 2.2 |
| COASTAL NETWORK: | \$ 191.7 | \$ 173.1 | \$ 18.7 | \$ 184.9 | \$ 182.0 | \$ 2.9 | \$ 202.4 | \$ 197.1 | \$ 5.3 | \$ 215.9 | \$ 220.1 | \$ (4.2) | \$ 267.2 | \$ 256.0 | \$ 11.2 |
| MLK | \$ 150.1 | \$ 146.0 | \$ 4.1 | \$ 148.8 | \$ 143.0 | \$ 3.8 | \$ 138.4 | \$ 137.3 | \$ 1.1 | \$ 159.6 | \$ 126.3 | \$ 33.3 | \$ 52.2 | \$ 62.3 | \$ (10.1) |
| SW CHC/HC'S | 11.4 | 14.7 | (3.3) | 11.7 | 13.7 | (1.9) | 17.8 | 16.0 | 1.8 | 16.6 | 15.7 | 0.9 | 20.6 | 19.4 | 1.2 |
| SOUTHWEST NETWORK: | \$ 161.5 | \$ 160.7 | \$ 0.8 | \$ 158.5 | \$ 156.6 | \$ 1.9 | \$ 156.1 | \$ 153.2 | \$ 2.9 | \$ 176.2 | \$ 142.0 | \$ 34.2 | \$ 72.7 | \$ 81.7 | \$ (9.0) |
| RLANRC | \$ 75.4 | \$ 65.5 | \$ 9.9 | \$ 77.4 | \$ 66.4 | \$ 11.0 | \$ 81.4 | \$ 67.3 | \$ 14.1 | \$ 72.1 | \$ 71.6 | \$ 0.5 | \$ 94.9 | \$ 84.6 | \$ 10.2 |
| OV/UCLA | \$ 101.9 | \$ 97.5 | \$ 4.3 | \$ 99.9 | \$ 104.1 | \$ (4.2) | \$ 110.3 | \$ 112.7 | \$ (2.4) | \$ 119.2 | \$ 125.6 | \$ (6.4) | \$ 140.9 | \$ 141.0 | \$ (0.1) |
| SFV CHC/HC'S | 14.5 | 13.1 | 1.4 | 14.3 | 13.4 | 0.9 | 15.2 | 13.7 | 1.5 | 15.6 | 14.8 | 0.8 | 18.5 | 16.6 | 1.9 |
| HDHS | 17.2 | 17.0 | 0.2 | 17.8 | 17.7 | 0.1 | 18.7 | 16.8 | 1.9 | 21.7 | 18.8 | 2.9 | 26.1 | 21.7 | 4.4 |
| AVHCs | 4.9 | 4.4 | 0.5 | 5.7 | 4.1 | 1.6 | 5.7 | 6.7 | (1.0) | 6.7 | 7.2 | (0.5) | 7.1 | 7.6 | (0.6) |
| VALLEY CARE NETWORK: | \$ 138.5 | \$ 131.9 | \$ 6.5 | \$ 137.8 | \$ 139.3 | \$ (1.6) | \$ 149.9 | \$ 149.9 | \$ (0.0) | \$ 163.1 | \$ 166.4 | \$ (3.3) | \$ 192.6 | \$ 186.9 | \$ 5.7 |
| TOTAL ENTERPRISE FUNDS | \$ 959.0 | \$ 894.0 | \$ 65.0 | \$ 935.7 | \$ 914.2 | \$ 21.5 | \$ 983.4 | \$ 952.6 | \$ 30.8 | \$ 1,043.6 | \$ 1,018.5 | \$ 25.1 | \$ 1,103.2 | \$ 1,074.5 | \$ 28.7 |
| GENERAL FUNDS | | | | | | | | | | | | | | | |
| HSA | \$ 64.5 | \$ 60.2 | \$ 4.3 | \$ 69.7 | \$ 62.6 | \$ 7.1 | \$ 76.8 | \$ 69.4 | \$ 7.4 | \$ 72.8 | \$ 71.8 | \$ 1.0 | \$ 80.0 | \$ 80.0 | \$ (0.0) |
| OMC | \$ 5.4 | \$ 5.4 | \$ 0.0 | \$ 10.2 | \$ 8.3 | \$ 1.9 | \$ 9.5 | \$ 8.9 | \$ 0.6 | \$ 11.2 | \$ 10.1 | \$ 1.1 | \$ 16.1 | \$ 11.8 | \$ 4.3 |
| JCHS | \$ 13.0 | \$ 11.5 | \$ 1.5 | \$ 14.1 | \$ 12.0 | \$ 2.0 | \$ 15.4 | \$ 13.5 | \$ 1.9 | \$ 16.0 | \$ 14.8 | \$ 1.2 | \$ 18.5 | \$ 17.1 | \$ 1.4 |
| GENERAL FUNDS TOTAL: | \$ 82.9 | \$ 77.0 | \$ 5.8 | \$ 93.9 | \$ 82.9 | \$ 11.0 | \$ 101.7 | \$ 91.9 | \$ 9.8 | \$ 100.0 | \$ 96.7 | \$ 3.3 | \$ 114.5 | \$ 108.9 | \$ 5.6 |
| GRAND TOTAL | \$ 1,041.9 | \$ 971.1 | \$ 70.9 | \$ 1,029.7 | \$ 997.1 | \$ 32.5 | \$ 1,085.1 | \$ 1,044.5 | \$ 40.6 | \$ 1,143.6 | \$ 1,115.2 | \$ 28.4 | \$ 1,217.7 | \$ 1,183.4 | \$ 34.3 |

Notes:

* Net Salaries includes: salaries, salary savings, shift differential, overtime, bonus, MAPP differential, stand-by pay, sick buy back, and call back pay.

** Department of Public Health was separated from the Department of Health Services beginning in FY 2006-07. For comparison purposes, this schedule excludes the Department of Public Health budget units (PH, OAPP, A&D, CMS, and AVRC) from FYs 2003-04 through 2005-06.

(1) Budgeted net salaries based on the Adjusted Allowance for each fiscal year. FY 2007-08 budgeted net salaries reduced by physician pay plan funding, for which there will be minimal expenses during FY 2007-08. Only newly hired physicians will receive be paid under the plan, until existing doctors are placed on the plan once the medical school agreements are

(2) Reflects final actual salaries (salaries, shift differential, overtime, bonus, MAPP differential, stand-by pay, sick buy back, and call back pay) for each respective fiscal year.

(3) Full-year estimate is based on the February 2008 forecast for net salaries (salaries, shift differential, overtime, bonus, MAPP differential, stand-by pay, sick buy back, and call back pay).

ATTACHMENT I

LOS ANGELES COUNTY - DEPARTMENT OF HEALTH SERVICES
FINAL FINANCIAL PERFORMANCE ANALYSIS
ACTUALS
FISCAL YEARS 2002-03 THROUGH 2006-07
(\$ in Millions)

DEPARTMENT SUMMARY⁽¹⁾

| | <u>FY 2002-03</u> | <u>FY 2003-04</u> | <u>FY 2004-05</u> | <u>FY 2005-06</u> | <u>FY 2006-07</u> |
|---|--------------------------------|-------------------|-------------------|-------------------|-------------------|
| <i>Expenses</i> | | | | | |
| Salaries & Employee Benefits | \$ 1,610.1 | \$ 1,631.8 | \$ 1,712.3 | \$ 1,823.2 | \$ 1,637.4 |
| Services & Supplies | 1,349.3 | 1,414.5 | 1,546.7 | 1,698.2 | 1,423.5 |
| Other Charges | 104.8 | 102.8 | 105.2 | 100.9 | 67.4 |
| Fixed Assets/Equipment | 7.1 | 9.7 | 34.5 | 27.5 | 34.6 |
| Operating Transfers Out | 0.3 | 0.4 | 0.3 | 0.3 | 0.1 |
| Total Expenditures | \$ 3,071.6 | \$ 3,159.2 | \$ 3,399.0 | \$ 3,650.1 | \$ 3,163.0 |
| Less: Intrafund Transfer | 77.6 | 82.3 | 76.2 | 86.5 | 35.0 |
| Net Expenditures | \$ 2,994.0 | \$ 3,076.9 | \$ 3,322.8 | \$ 3,563.6 | \$ 3,128.0 |
| <i>Revenues</i> | \$ 2,408.9 | \$ 2,509.0 | \$ 2,389.0 | \$ 2,648.6 | \$ 2,145.5 |
| Expenses Less Revenues | \$ 585.1 | \$ 567.9 | \$ 933.8 | \$ 915.0 | \$ 982.5 |
| County Contribution | | | | | |
| Sales Tax | \$ 128.8 | \$ 128.9 | \$ 128.9 | \$ 129.3 | \$ 104.8 |
| VLF | 325.8 | 363.3 | 367.8 | 362.3 | 306.7 |
| Tobacco Settlement | 75.5 | 75.0 | 85.1 | 85.1 | 83.1 |
| Property Tax | 178.0 | 184.5 | 185.1 | 193.3 | 364.3 |
| Total County Contribution | \$ 708.1 | \$ 751.7 | \$ 766.9 | \$ 770.0 | \$ 858.9 |
| Designation Added/(Used) at Year-End | <u>\$ 123.0</u> ⁽²⁾ | <u>\$ 183.8</u> | <u>\$ (166.9)</u> | <u>\$ (145.0)</u> | <u>\$ (123.6)</u> |
| Designation Included in the Budget | \$ 245.9 | \$ 31.8 | \$ 173.5 | \$ 395.5 | \$ 141.3 |
| Surplus at Year-End | <u>\$ 368.9</u> ⁽²⁾ | <u>\$ 215.6</u> | <u>\$ 6.6</u> | <u>\$ 250.5</u> | <u>\$ 17.7</u> |

Notes:

(1) Includes the Department of Public Health for FY's 2001-02 through 2005-06.

(2) These amounts were reduced by \$105.0 million for the transfer of funding to the LAC+USC Replacement Facility ACO fund.